From: Alex Copson
Sent: Wednesday, April 6, 2016 6:16 AM
To: Michael Hewitt; Robert McFarlane; Keith Alexander; James Cartwright; Michael Flynn; Jack Keane; Dennis B. Ross; Ziad Asali; Gen omar. G. Omar Khaldi PhD; John Hofmeister; Kirk Donald; [redacted]@icloud.com; Jan Willem Henkelman; Joseph G Henry; Michel Bunnik; John Tanner
Subject: Fwd: My summary of current project vision

Sent from my iPhone

Begin forwarded message:

From: Fred Johnson [redacted]@acustrategicpartners.com>
Date: April 5, 2016 at 8:46:39 PM EDT
To: Alex Copson [redacted]@acustrategicpartners.com>
Subject: My summary of current project vision

Alex,

I thought I would try jotting down my understanding of your overall vision of the expanded IPG project.

The original concept of IPG was for the US and Russia to jointly provide a package of 40 nuclear power reactors, interconnecting power grid, and lifetime fuel service in the Middle East. The active participation of both superpowers would provide an implicit security umbrella for the GCC and their allies, and the fuel service provided a proliferation-proof means of securing needed electric power for the region while freeing up oil for higher-value use as an export.

Subsequent developments - in particular the increasingly chaotic and disintegrating social order in the ME (Iran and its proxies, Syrian collapse, US removal of Iranian sanctions and blind-eye) together with the rapid drop in oil prices from over $100 per barrel to $30 - led to a substantial refinement of the IPG package by including X-Co Dynamics as force projection to provide comprehensive pro-active security to protect the vulnerable reactors and, by extension, the entire GCC.

Increasingly, the current low oil prices pose a dangerous dilemma for the key oil suppliers in the ME and for Russia - a trap, in which the situation becomes deadlier the longer it persists, and yet with no obvious path for the parties to climb their way out.

The nexus is of the problem is Iran. It has long posed a threat to the GCC countries, through using proxies (particularly Hezbollah) to ferment internal security threats coupled with clear goals to develop nuclear weapons and to acquire increasingly sophisticated military technology. Ending sanctions on Iran has eased the way for it to deal with foreign countries to acquire critical military technology, and for it to sell oil on international markets to fund its ambitions.

GCC - particularly Saudi - response has been to flood the world market with oil, limiting the revenue that Iran can get for oil at present as well as discouraging investors from working with Iran to boost its domestic capacity (thus limiting future revenues). This policy has put a serious financial strain on the GCC but one that have stated they are able to cope with for at least several years.

There has been serious collateral damage from the low price oil strategy, including in the US (fracking), Canada (tar sands), and Venezuela (already a basket case). The most serious damage, however, has been to Russia. In 2013 (with oil prices at $108), petroleum products accounted for 68% of Russian export revenues, 30% of GDP, and half of government revenues. The precipitous drop in oil prices is an economic and existential calamity that Russia can only cope with through extraordinary measures.

Our concern is that Russia's extraordinary measures could include actions to further destabilize the political situation in the Middle East. By turning a blind eye - or worse, tacitly encouraging - Iran to move against the GCC (overtly or through proxies), the world oil markets would be destabilized and oil prices would spike upwards.

In the interest of maintaining geopolitical stability, ACU has broadened the project remit to address the dangerous dynamics of low oil prices. This essentially requires steps to sideline Iran and to facilitate a positive Saudi-Russia dialog to stabilize oil prices. It was always part of the project that Russia's involvement in IPG would tilt Russia away from Iran and consolidate its interest in a stable GCC. Further plans to sideline Iran was the development of X-Co, with its very visible deployment of Sea Launch as well as its purchases of Russian military hardware (in lieu of Russian military sales to Iran).

Further to establishing a Saudi-Russia oil dialog, ACU included a large scale pipeline from the Gulf to the Mediterranean that would ship oil only when prices were at or above a mutually agreed minimum level.

More recently, ACU has further scoped the potential for geopolitical stabilization of the Middle East by inviting China to participate in IPG. Chinese involvement would mean that all three superpowers have a vested interest in IPG and hence provide a tripartite security umbrella. Additionally, ACU is exploring the feasibility of an explicit long-term commitment by China to purchase GCC and Russian oil on set terms to stabilize prices at a sustainable level.

China faces two particular oil-related risks. First, as a major importer (China imports 6.2 million bb/d, accounting for about 1/8th of all globally traded oil) it is vulnerable to disruption of Middle East supplies and sky-rocketing prices. Second, it is at risk from an oil-induced collapse of Russia, a country with which it shares a long border. These risks could be mitigated if China were to commit to purchase the bulk of its imported oil (around two billion barrels per year) half from Russia and half from the GCC, at a guaranteed price of $100 for ten years. (Note - this amounts to about 5.5 million b/d, vs. imports of about 6.2 million b/d.)

Viewing this proposed oil purchase commitment in another light: China runs a trade surplus with the US well in excess of $300 billion annually, substantially more than the $200 billion envisioned for the oil contract. And, while $100/bbl is a significant premium in today's market, it is probably not out of line with what China could expect to pay on balance over the coming decade, and possibly a significant savings if it helped avert outright political and oil industry collapse in either Russia or the GCC countries. In short, China would be visibly redressing its trade imbalance with the US by committing resources to assist the US in calming the most troubled and threatening regions of the world, to the mutual advantage of both.

The figure of $100/bbl is about what could be achieved if both Russia and Saudi each agreed to withhold 1 million bb/d. Note that such an increase would be of great benefit to the struggling US oil industry, with a concomitant significant increase in oil field investment and employment.

Fred Johnson
Partner / Chief Economist

ACU

ACU Strategic Partners
Phone: +1 [redacted]
Email: [redacted]@ACUstrategicpartners.com